

EXAMPLES: What Michigan is Doing Right!

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Michigan Entrepreneurship Score Card

The Michigan Entrepreneurship Score Card is an entrepreneur-based benchmarking report that uses 127 standard metrics to compare Michigan against all other states. The Score Card is grounded in the theory that - among all the major factors affecting economic growth – entrepreneurship is the most important.¹ As Michigan undergoes a wrenching economic change, one thing is becoming vividly clear: entrepreneurship must play a central role in any viable economic development strategy. Thus, the goal of the Michigan Entrepreneurship Score Card is to foster a Dynamic Entrepreneurial Economy, characterized by the robust creation, retention, expansion and attraction of entrepreneurial small businesses in the state.

Entrepreneurial Dynamism

To simplify analysis and benchmarking, the *Score Card* is organized into eight groupings or "drivers." Three of the "primary" drivers are combined into a single composite measure: "Entrepreneurial Dynamism" (described below):

Entrepreneurial Dynamism

Primary Drivers	Measure		
Entrepreneurial Change	The amount of entrepreneurial growth or decline in an economy (i.e., factors that effect business <i>startup</i> (<i>stage one</i>) and <i>growth</i> .		
Entrepreneurial Vitality	The absolute level of entrepreneurial activity (i.e., factors that effect the <i>pace and robustness</i> of entrepreneurial activity).		
Entrepreneurial Climate	The capability of an economy to foster entrepreneurship (i.e., factors that <i>foster or discourage</i> entrepreneurial change and vitality).		

¹ "Entrepreneurial Growth Companies transform change into opportunity: <u>Jobs</u> - 5-10% of U.S. firms ("ECGs") create 2/3 of 240,000 new jobs every month; <u>Innovation</u> - Entrepreneurs account for at least 2/3 of all technological innovation; <u>Prosperity</u> - 1/3 to 2/3 of difference in national growth rates is due to high growth companies" (Patrick Von Bargen, Executive Director, National Governors Association, National Commission on Entrepreneurship).

The remaining metrics are clustered into five "secondary" drivers, measuring, Education and Workforce Development, Business Costs and Productivity, Government and Regulatory Environment, Infrastructure and, Quality of Life.

Quality of Data

It is important to note that the Michigan Entrepreneurship Score Card does <u>not</u> derive its measures from original research. The Score Card uses the most up-to-date sources of information available, taken directly from standard, highly respected and authoritative secondary databases as well as highly respected methodologies for our analysis. The report is highly regarded among qualified professionals and policy makers in the areas of economic development, public policy, finance, education and entrepreneurship.

A key finding of the Global Entrepreneurship Monitor report on high expectation businesses was, "active policy has a role to play in promoting high expectation entrepreneurial activity." The report aptly notes that "there is room for active entrepreneurship policy interventions" in current governmental economic development policy. The 2006-2007 Michigan Entrepreneur Score Card mirrors these findings with regard to the Michigan economy.

What Michigan is Doing Right

Several key Score Card metrics indicate that Michigan is making progress in important areas. For example, the federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs provide grants to small businesses to conduct commercially viable research and develop of breakthrough technology innovations, products and processes. Michigan's performance in the SBIR and SBIR programs has significantly improved in 2004 and 2005. While ranking 27th in the nation in 2004, on a "number of SBIR awards per 1,000 firms" basis, on a "total awards per state" basis, Michigan moved from 1.87% of the nations 2003 Phase I SBIR awards to 2.1% in 2004 and 2.69% in 2005 (Michigan now ranks in the top 10 states in the Phase I SBIR category. From 2001 to 2004, Michigan ranked 12th, 13th, 15th, and 14th respectively).

The following are several key metrics where Michigan has also made improvement:

Michigan Rank among all States

Item	2004-05	2006-07
University Spinout Businesses	25	16
Small Business Invest. Corp Awards	31	30
Bank C&I Lending	11	9
Private lending to Small Businesses	6	3
Workforce Preparedness	13	10
Business Costs	44	41
Environmental Quality	28	20

² Global Entrepreneurship Monitor, "2005 Report on High-Expectation Entrepreneurship," 2005. pp 10.

While Michigan can not <u>yet</u> be classified as a successful entrepreneurial economy, it does have pockets of meritorious entrepreneurial dynamism that are *well positioned to synergize into a critical mass*. For the purposes of the Score Card, meritorious entrepreneurial activity is characterized as "paradigm shifting" as opposed to "optimized incrementalism." A representative sample of some these examples of meritorious entrepreneurialism are highlighted below:

Entrepreneurial Change

- Angel Networks In the past several years a number of groups of local investors have been formed to fill the much needed gap for seed stage financing: Ann Arbor Angels, First Angels, Grand Angels, Great Lakes Angels, Plymouth Venture Partners, et al. In the past three years, these groups have helped finance more than 50 early stage companies in Michigan.
- Angel Tax Incentive The Angel Investment Incentive is a trial program in Michigan designed to
 stimulate the creation and growth of early stage technology companies by providing a tax deduction
 for individual investors when the basis plus all or some portion of the profits from an initial qualified
 investment are rolled over into a subsequent investment in a qualified technology company.
 (http://www.michigan.org/angels).
- Renewable Energy in Michigan DTE Energy "GreenCurrents" program provides renewable energy to customers in Southeast Michigan. While this program will foster energy and environmental security, one of its most important contributions comes from DTE's commitment to expand the production of renewable energy in Michigan. This production expansion will add much needed knowledge-economy related jobs, economic development and economic diversification.
- It's the COMMERCIALIZATION.... 3M had it right when they said "research is the conversion of money into knowledge commercialization is the conversion of knowledge back into money." Within this context, the Entrepreneurship and Commercialization group at Saginaw Valley State University through the expert leadership of Dr. Dulcey Simpkins has launched an effort to foster COMMERCIALLY MERITOROUS SBIR/STTR grant proposals as an innovative economic development strategy for Mid Michigan.
- Knowledge Based Economy The Kaufman Foundation report titled State New Economy Index for 2007, found that Michigan has made more progress in preparing for the knowledge-based economy since 1999 than another state. In the report, Michigan ranked 19th overall, up from 34th place in the 1999 version of the report and up from 22nd place in the 2002 index. This preparation should begin to have measurable positive impacts on Michigan entrepreneurial dynamism metrics once critical mass has reached a sufficient level to overcome the negative effects of Michigan's industrial restructuring.
- The Kalamazoo Promise Kalamazoo, Michigan is currently home to an unprecedented experiment in economic development. Announced in November 2005, the Kalamazoo Promise guarantees full college scholarships to potentially every graduate of the Kalamazoo Public School district.
- MI-SBTDC regional center at Delta College In 2006, the Michigan Small Business & Technology Development Center (MI-SBTDC) program stepped up and certified six of its leadership in the Kaufman Foundation FastTrack program (a nationally recognized tool to help high performance potential small businesses form and grow). The MI-SBTDC regional center at Delta College (Region 5) is collaborating with local partners and using the resources of the MidMichigan Innovation Team's WIRED grant to launch the first TechVenture series in Michigan.

- Molly's Bistro in Downtown Midland An upscale restaurant featuring live piano and singing, has earned two significant distinctions from the Michigan Small Business and Technology Development Center (SBTDC). They have been named the Best Small Business for the SBTDC's Region 5, located at Delta College. In addition, they have received the prestigious Best Small Business Main Street USA award granted to only one of the twelve regional award winners each year.
- University Research Corridor Michigan's three largest research universities in Michigan bring in more than \$1.3 billion dollars in federal research grants to the state. Over the past five years, these federal dollars, combined with state and industry funding, have led to these three institutions alone creating an average of one new invention per day, signing ten new licenses agreements each month, and creating at least one new start-up every month. With 78 start-up companies from these three schools in the past five years, and many more in the pipeline, these universities are making yet another substantial contribution to the overall economy of the state.
- Workforce Innovation for Regional Economic Development (WIRED) In February, Michigan received two grants from the U.S. Department of Labor designed to expand employment and worker development opportunities of workers whose jobs have been impacted by globalization. Michigan was the only state to receive two WIRED grants. Each of the two regions will receive approximately \$15 million over the next three years as well as ongoing technical assistance from leaders of innovation and regional economic growth. Michigan's two winning proposals are:
 - O Mid Michigan Innovation Team, a region that includes 13 counties incorporating Flint, Lansing and Saginaw. The proposal was developed under the leadership of the Charles Stewart Mott Foundation, Genesee County Economic Development Agency, and Michigan State University. A key element of the Mid Michigan proposal is to refocus automotive supplier firms once tied to GM to emerging and growing manufacturing markets as well as the development of an alternative energy sector. This proposal builds on the strong automotive, educational and philanthropic assets of the region.
 - O West Michigan Workforce Innovations Lab, a seven county region anchored by Grand Rapids and led by the West Michigan Strategic Alliance at Grand Valley State University. The West Michigan proposal centers on an "innovations lab" designed to advance and spawn a wide range of innovations in its regional workforce development system focusing on four areas of innovation.

Entrepreneurial Vitality

- Automation Alley and Advanced Manufacturing In 2006, Automation Alley published their "Second Annual Technology Industry Report: Driving Southeast Michigan Forward." This report again shows the primary importance of Manufacturing to the Michigan economy and highlights the fact that Michigan's Advanced Manufacturing sector is experiencing significant growth in sales and jobs.
- Capital Access Program The Capital Access Program (CAP) was reinstated by the State of Michigan in 2006. This program provides the financing community with an incentive to approve higher risk loans to small businesses that otherwise would not have access to those funds. CAP uses small amounts of public resources to build reserve pools as a means to partially secure these loans. For the first nine months of the program, 401 CAP loans totaling \$21,200,000 were closed. Although CAP loans can be as large as \$5M, the average size CAP loan has been \$53,000. There are currently 51 banks and credit unions participating in the program.

- High Expectation Entrepreneurs on the move Both T/J Technologies and PicoMetrix are prime examples of how commercially viable companies can effectively use government-sponsored research grants to launch and grow high performance businesses. Both companies were founded with assistance from the MERRA Specialty Small Business Development Center. Both companies actively pursued and secured multi-millions in government-sponsored R&D grants (Michigan, State Research Fund, SBIR/STTR, NIST Advanced Technology Program, etc.) to fund the development and leverage the commercialization of proprietary breakthrough technologies, products and processes, leading to market leadership and accelerated growth. Both companies effectively used the grants to fund collaborations with leading research universities, private research institutes and federal laboratories. Finally, both companies used these grants to develop strong Intellectual Property positions a factor that was key to their success in negotiating the robust strategic alliances described below:
 - T/J Technologies (http://www.tjtechnologies.com/) one of Michigan's prestigious "50 Companies to Watch consummated a partnership with A123 Systems, a Boston based company that develops and manufactures high performance batteries for power tools and other applications. This partnership will provide significant resources to accelerate their growth.
 - O Picometrix (http://www.picometrix.com/index.html) announced a merger with API of Camarillo, California. The new venture will allow both Picometrix and API to aggressively pursue market leadership in the rapidly growing field of optoelectronics.
- IncuMentoring Online Technologies Corporation (OTC) is at the center of a below-the-radar phenomenon whereby successful Second-stage companies incubate start-ups at their facilities. The Small Business Association of Michigan has coined the term "IncuMentoring" to describe this process whereby the Incumentors provide space, resources and, most importantly, coaching to enhance the successful start-up and growth of new ventures.
- **PeerSpectives**TM **Roundtable System** The Edward Lowe Foundation has evidence that peer learning is a particularly powerful vehicle for creative adaptation and change, especially among growth companies. ELF has found that growth companies are characterized by more frequent and intense CEO and senior executive networks than their slower growing counterparts. In Michigan, the ELF PeerSpectives, "peer-to-peer" entrepreneur network operate through the Michigan Small Business Technology Development Center network.
- Nth Power The Venture Michigan Fund and the 21st Century Investment Fund have committed to invest up to \$20 million in Nth Power, a leading national alternative energy venture capital firm based out of San Francisco, California. Nth Power recently announced a partnership with Detroit-based NextEnergy, an alternative energy industry accelerator founded to enable the commercialization of energy technologies that positively contribute to economic competitiveness, energy security and the environment. Under the partnership, NextEnergy would assist Nth Power in identifying attractive early stage alternative energy opportunities in Michigan, and will perform due diligence and monitor portfolio companies. The partnership will provide Michigan-based companies with access to Nth Power's broad spectrum of international venture capital networks and resources.
- Second-Stage Companies to Watch "50 Companies to Watch" is an annual program, sponsored by the Edward Lowe Foundation in partnership with the Small Business Foundation of Michigan, Small Business Technology Development Center network, Michigan Economic Development Corporation and several key funding partners. The program identifies, recognizes and celebrates the contributions, innovation and energy of 50 Second-Stage companies that are experiencing significant

growth in Michigan. Startup companies and large corporations often garner attention for their achievements, but growing second-stage enterprises (working mostly behind the scenes) generate the bulk of new, sustainable jobs and are a powerful economic force underpinning the high quality of life most Americans enjoy. Now up to 150 and counting, this program further reinforces the notion that a Second-Stage business development strategy is also a sound economic development strategy. For example, the "Michigan 50 Companies to Watch" program found that just 50 Michigan second stage entrepreneurs generated the following economic impacts in 2006: \$500 Million in Total Sales; \$180 Million Increase in Total Annual Sales; 2,700 Employees; \$100 Million in Wages; 29% Annual Employee Increase; 56% Annual Sales Growth; and, 96% of Assets in Michigan³

• SBIR/STTR – Robust research, development and related commercialization correlate closely with market leadership and growth and economic development for the communities in which the firms reside. The federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs provide grants to small businesses to conduct commercially viable research and develop of breakthrough technology innovations, products and processes. Michigan's performance in the SBIR and SBIR programs has significantly improved in 2004 and 2005. While ranking 27th in the nation in 2004, on a "number of SBIR awards per 1,000 firms" basis, on a "total awards per state" basis, Michigan moved from 1.87% of the nations 2003 Phase I SBIR awards to 2.1% in 2004 and 2.69% in 2005 (Michigan now ranks in the top 10 states in the Phase I SBIR category. From 2001 to 2004, Michigan ranked 12th, 13th, 15th, and 14th respectively).

Entrepreneurial Culture

- Alternative Energy (NextEnergy) Statewide Network NextEnergy is creating the NextEnergy Statewide Alternative Energy Technology Support Network (Network) in collaboration with SmartZones, universities and economic development organizations statewide. NextEnergy develops the Network by expanding and enhancing its existing initiatives for providing support to Alternative Energy Technology (AET) companies and entrepreneurs throughout Michigan, as well as creating several new initiatives. NextEnergy brings together and leverages the combined technical and business resources of Michigan's SmartZone accelerators and incubators and Michigan's major research universities through programs designed to 1) build a statewide AET business growth support infrastructure, 2) position Michigan as the leading U.S. AET business and job creator and 3) ultimately put Michigan on the AET industry "map."
- Ann Arbor SPARK In 2006, Ann Arbor Spark absorbed the Washtenaw Development Council. This action established a new economic development paradigm by the merger of a traditional economic development system with a high performance business development system.
- **Bizdom U** Bizdom U's mission is to usher in a new, prosperous, era of entrepreneurship in the great city of Detroit by empowering tomorrow's top entrepreneurs to start-up and lead successful businesses. Bizdom U offers students two years of practical, street-smart, real world training, the development of a business plan for a Detroit-based business, help in obtaining investment capital, help in creating a plan to grow the business, a diploma upon graduation, and the opportunity to contribute to the growth of Detroit.

³ Edward Lowe Foundation, Companies to Watch: Celebrating Second-Stage Entrepreneurs, "Economic Impact in 2006," (Traverse City: Village Press, Inc.) 2006, pp. 12.

⁴ Data Source: SBIR Tabulated Data at www.ssti.org

- Bryan K. Ritchie, P.hD., Associate Professor, James Madison College, Michigan State University Outspoken proponent for government reform in order to release the "entrepreneurial spirits of the private sector" to productively invest in the creation of an entrepreneurial culture in the state.⁵
- Annual Collaboration for Entrepreneurship (ACE) ACE is a state-wide event that promotes the development and commercialization in Michigan of high-growth potential, innovative, and technology business ventures with national and international potential. Now in its seventh year, ACE brings Michigan entrepreneurs together to meet and network with peers, support organizations, students, and potential capital partners. ACE is sponsored by the Ann Arbor IT Zone and hosted at Washtenaw Community College's Morris Lawrence Building in Ann Arbor.
- Central Michigan University, LaBelle Entrepreneur Center CMU is the first school in Michigan
 to join the distinguished group of universities and colleges across the U.S. that offers entrepreneur
 DEGREES. Currently, through its LaBelle Entrepreneurial Center, CMU has over 400 students
 enrolled in its program.
- Entrepreneurial Foundations Both the Edward Lowe and Mott Foundations continue to stand as shining examples of how Foundations can continue to *honor* the entrepreneur spirit, acumen and legacy of their founders.
- Lawrence Technological University, LEER Entrepreneur Center LTU is directing its LEER Entrepreneur Center to specialize in <u>Intrapreneurship</u>, training their students to change organizations from within with entrepreneurship.
- Michigan 21st Century Jobs Fund State Representative Andy Dillon changed the way Michigan designs, implements and funds, economic development through his outstanding leadership in securitizing the Tobacco Settlement funds. The Michigan 21st Century Jobs Fund was created through the securitization of the states Tobacco Settlement funds and has become a model of good public policy and public-private partnerships. In Michigan, the funds are being used to stimulate economic diversification and growth. In addition to providing grants for research and development to universities and businesses, the program supports several important commercialization initiatives including, but limited to, the following:
 - The 21st Century Commercialization Competition provides a vehicle for the State to foster the growth of Michigan's technology based economy by directly investing in the most promising, nationally competitive, commercialization opportunities in competitive edge technology sectors. The program is designed to create a robust, entrepreneurial private sector and promote collaborative partnerships that drive economic growth competitive edge industries while investing in new, sustainable jobs in Michigan.
 - The 21st Century Investment Fund is preparing to invest up to \$109 million in qualified private equity, venture capital, and mezzanine firms. A portion of those investments may also be placed directly in companies in which a qualified firm has made or is making an investment. In addition to rates of return, the fund's goals target job creation and diversification of the State's economy.
- *Michigan Entrepreneur Education Network* Entrepreneurial education is one of the most effective ways to stimulate entrepreneurship across all sectors. It is also is an effective strategy to accelerate

⁵ See: Bryan K. Ritchie, "Michigan Leaders Should Endeavor to Unleash Culture for Entrepreneurs," in, Lansing State Journal Forum, February 25 2007, pp 7A.

the formation of an Entrepreneurial Economy. MEEN has steadfastly worked over the past five years to facilitate, expedite, fund and accelerate the institutionalization of standardized entrepreneur education in Michigan's K-16 system. Currently several universities and colleges in the state are offering meritorious entrepreneurship programs including: Central Michigan University, Lawrence Technological University, Schoolcraft College and Saginaw Valley State University.

- Michigan Interfaith Power and Light MiIPL has become a national model for their market-based approach to energy security. MiIPL aggregates the discounted purchase of energy efficiency and renewable energy by faith-based congregations from Michigan suppliers of ENERGY STAR rated products. Through its program, MiIPL has generated the following outcomes (since 2004): removed from the atmosphere 14,130 tones of CO2, 139,982 lbs of SO2, 68,305 lbs of NOx, .676 lbs of Mercury and 2,615 lbs of Particulates (equivalent of planting 3,850 acres of forest or the removal of 2,445 vehicles off the road). Estimated lifetime dollars saved on energy bills: \$1,976,331.
- Michigan Homeland Security Consortium MHSC has recognized that Michigan's core competencies, skill base, business capacities and infrastructure closely match the needs of the emerging homeland security industry. MHSC is working hard to diversify Michigan's old-line industrial capacities into this rapidly growing and highly lucrative global industry.
- Michigan Small Business and Technology Development Centers (SBTDC) One of only two states
 with the "technology classification, Michigan's SBTDC's play a key role in growing the base of our
 state's future businesses. Each year, this network helps more than 14,000 entrepreneurs and small
 companies, providing counseling, training and research so these innovators can put their energy and
 focus into new products and services.
- Michigan Universities Commercialization Initiative The Michigan Universities Commercialization Initiative (MUCI) supports the commercialization efforts of Michigan research institutions in life sciences. MUCI provides critical pre-seed funding dollars that are designed to help the institutions and their researchers test and validate the market need for and the feasibility of the technology to be commercialized. The MUCI Challenge Fund provides the funding to "ready" technologies to move them from the institutions to the marketplace. During the program's history, it has deployed over \$3 million to projects that have gone on to result in the creation of 22 start-up companies, 20 of which are still active and viable businesses. These projects have also leveraged nearly \$19 million additional dollars.
- **Prima Civitas Foundation (PCF)** Established in 2006, the Prima Civitas Foundation (PCF) is a regional community and economic development collaborative committed to positioning Mid-Michigan as a world leader in the post-petroleum economy.
- Regional Approaches to Economic Development The Citizens Research Council of Michigan
 (CRC) is issuing a new series of reports on economic development. The series, entitled "Regional
 Approaches to Economic Development," is designed to provide pertinent information and
 recommendations for policy makers and citizens about the impact public policies on economic
 development.
- Small Business Advocacy In 2006, Governor Granholm appointed Chris Holman as Michigan's Small Business Advocate. In this advocacy role, Chris is working to ensure that entrepreneurs and small companies are connected to the support and resources they need to grow and prosper.

- Small Business Innovation Award —Operated by the Small Business Association of Michigan, the "Small Business Innovation Award" is a prestigious award that recognizes Michigan small business owners who developed a new, innovative product or service that earned revenue for the first time during the award year. Award categories include industrial innovation, technology innovation, consumer product innovation, consumer service innovation, or business-to-business service innovation.
- SmartZones Michigan SmartZones are collaborations between universities, industry, research organizations, government and other community institutions. The intent of the SmartZones program is to stimulate the growth of technology-based businesses and jobs by aiding in the creation of recognized clusters of new and emerging businesses. Specifically, those primarily focused on commercializing ideas, patents and other opportunities surrounding corporate, university or private research institute R&D efforts. Compelling results since SmartZone creation in 2002: 12 SmartZones; 13 Incubators; New company locations 549; Businesses serviced 592; Jobs created/retained: 11,860; Private Investments \$475.8 m.

In their efforts to support technology-based businesses and entrepreneurs, the SmartZones provide business services, mentoring, training, lab and office space, networking and access to a "Pre-Seed Fund". The \$8.0 million Pre-Seed Fund, a collaborative effort of all the Michigan SmartZones, is supported by the 21st Century Jobs Fund and administered by Ann Arbor SPARK. The objective of the fund is to increase the number and viability of entrepreneurial ventures commercializing competitive edge technologies in Michigan. Specifically, emerging businesses often require small infusions of capital to meet critical commercialization milestones and satisfactorily address key questions which angel and venture capital investors pose as a condition of investment. These milestones include, but are not limited to, patent research and application, proof of principle development, prototype development, market analysis, customer feedback, and qualifying limited clinical trials.

- Upjohn Institute Formed as a non-partisan, non-profit research institute in 1945, the Upjohn
 Institute conducts important research on employment and economic development. Their 2006 report
 titled, "Michigan's Economic Competitiveness and Public Policy" provides keen insights into the
 NEXUS between taxes, education and economic development.
- Venture Michigan Fund The Venture Michigan Fund was created to increase the availability of capital for seed and early stage companies. It is prepared to be a major force for strengthening the State's capital markets, promoting economic growth and diversification, and creating and retaining jobs. The fund will invest solely in venture capital firms which target seed and early stage investments with emphasis given to a firm's likelihood of providing above-average returns, its presence in and history of investments in Michigan, and its consideration of minority owned businesses in its investment activities. The Venture Michigan Fund anticipates investing \$95 million in qualified firms.

Please contact Mark H. Clevey with additional examples of meritorious entrepreneurship in Michigan

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